

**SEQUIM CITY COUNCIL
AGENDA BILL 20-045**

MEETING DATE: May 26, 2020

FROM: Charisse Deschenes, Assistant City Manager CD
Initials

SUBJECT/ISSUE: Affordable Housing HB 1406 Ordinance Defining a New Chapter 3.34 Sales and Use Tax for Affordable Housing of the Sequim Municipal Code

Discussion dates	9/09/2019	10/14/2020	01/27/2020	
CATEGORY	<input type="checkbox"/> City Manager Report	<input type="checkbox"/> Information Only	Time Needed for Presentation 15	
	<input type="checkbox"/> Public Hearing	<input type="checkbox"/> Consent Agenda		
	<input checked="" type="checkbox"/> Other Business			
Reviewed by	Initials		Date	
Charles P. Bush, City Manager	CPB		5/20/2020	
Sue Hagener, Admin Services Director	SH		5/20/2020	
Kristina Nelson-Gross, City Attorney	KNG		5/21/2020	
Barry Berezowsky, DCD Director	BB		5/20/2020	
Sara McMillon, City Clerk	SEM		5/20/2020	

PROBLEM/ISSUE STATEMENT

Attached for Council action is an ordinance authorizing a sales and use tax for affordable housing in accordance with Substitute House Bill 1406. The sales and use tax can be used for the acquisition, construction or rehabilitation of affordable housing or facilities providing supportive housing. The provisions of the sales and use tax would be defined in a new Chapter 3.34 Sales and Use Tax for Affordable Housing of the Sequim Municipal Code.

The funds may be used for “the acquisition, construction or rehabilitation of affordable housing or facilities providing supportive housing, and for the operation and maintenance cost of affordable or supportive housing, for cities of 100,000 or less: or, if eligible, for providing rental assistance to tenants.” The tax must be used to assist persons whose income is at or below 60% of the City median income of \$37,901 (Median household income in 2018 dollars, 2014 – 2018).

DISCUSSION / ANALYSIS

Sequim residents are experiencing a housing cost and rent burden. The 2018 Sequim Housing Action Plan identified that in 2016, 41% of Sequim homeowners with a mortgage and 53% of Sequim renters paid over 35% of their monthly income in housing.

	Percent of Owners with Mortgage Paying over 35% of Monthly Household Income for Housing	Percent of Renters Paying over 35% of Monthly Household Income for Housing
Sequim	41%	53%
Clallam County	28%	44%
Puget Sound	24%	39%
Washington State	24%	40%
United States	23%	42%

Background

At the October 14, 2019, City Council meeting, the Council passed Resolution R2017-07 declaring its intent to adopt legislation to authorize 0.0073% of the sale and use tax as authorized by SHB 1406, which allows cities and counties to retain a portion of the sales tax for investment in affordable or supportive housing. This portion is offset by a reduction in the state's portion, and therefore does not result in an increased tax on consumers. The maximum amount Sequim may collect is limited by the amount of taxable retail sales in fiscal year 2019 times the appropriate rate. The City would collect these funds for 20 years from the date of adoption. Below is an estimate that is adjusted annually.

Revenue Estimates - Sequim's Estimated Maximum Cap @ 0.0073%

One Year	\$30,833
20 Years	\$616,660

Approving R2017-07 was the required first step to take advantage of the Local Sales Tax Option for Affordable Housing. The required second step is to adopt a tax ordinance by July 27, 2020. Adoption of the attached ordinance will meet that requirement.

Qualifying Local Tax

HB 1406 also allowed cities to adopt a Qualifying Local Tax (QLT) through the vote of the people. It would have allowed Sequim to receive 0.0146%. Sequim chose not to participate. Because Clallam County is participating they will receive the additional 0.0073%. If Sequim chooses not to participate and adopt the Ordinance, Clallam County will receive all 0.0146%. Options for city and county participation are shown in the table below. The bold black text represents Sequim's options. Clallam County chose to participate in HB 1406.

Tax Credit Rate Examples

Max Tax Credit Rate Under 1406	City with QLT	OPTION 1: City Without QLT, but does adopt an Ordinance to participate by July 27, 2020	OPTION 2: City Doesn't participate in QLT, City Doesn't Adopt an Ordinance, County Does Participate	County Doesn't Participate, City Participates but Doesn't Have a QLT
City	0.0146%	0.0073%	0.0%	July 2020: 0.0%
County	0.0%	0.0073%	0.0146%	0.0%

Staff recommends Option 1.

How Can the Funds be Used?

The funds can be used to:

- A. Acquire, rehab, or construct affordable housing (new units in an existing structure or facilities providing supportive housing services; or
- B. Pay for operations and maintenance costs of new units of affordable or supportable housing; or
- C. Provide rental assistance to tenants that are at or below 60% of the median income of the county or city imposing the tax; or
- D. To finance loans or grants to nonprofit organizations or public housing authorities to carry out the purposes of the bill (and may pledge tax proceeds from HB 1406 for repayment of bonds in accordance with debt limitations imposed by the state constitution or statute); or
- E. Enter into an interlocal agreement with other cities, counties and or housing authorities to pool and allocate the tax revenues.

Recommendations for Use of Fund

In the attachments below is a link to the Washington State Department of Commerce reporting requirements.

As mentioned above, staff would recommend adoption of the Ordinance. Through the evaluation of the possible use of the funds and those reporting requirements, staff recommends writing a Request for Proposal allowing a nonprofit organization or public housing authority to utilize the money through a grant option to carry out the purpose of the bill. (HB 1406 authorizes the City to issue general obligation or revenue bonds to carry out the purposes of such state law and to pledge the monies collected from the tax for repayment of such bonds. Such bonds are not being requested and would require separate action by a governing body.) A contract would also be required with the nonprofit or public housing authority accepting the grant. Reporting requirements would be defined in that contract.

Staff does not recommend using the funds for a City-managed rental assistance program at this time. It would require the City to create a new process and the tracking

with this option puts a burden on the Administrative Services Department. However, if there were a request from nonprofit or public housing authority to manage a rental assistance program, staff would also require a contract and ask that the reporting requirements be managed through that agency.

Regional Discussion

Staff met with the Clallam County Board of County Commissioners (BOCC), and the Cities of Port Angeles and Forks on January 13 to discuss the region's participation, timing of that effort, partnerships and ways to leverage the opportunities provided in the bill that benefits all parties involved. The next meeting is scheduled for June 29.

As mentioned above the County is interested in collaboration and a possible interlocal agreement. Options include:

1. Adopt the Ordinance, participate with the County in the interlocal agreement and stay involved in the discussion to leverage HB 1406 funding in Sequim; Sequim remains in control of its 0.0073%.
2. Adopt the Ordinance, participate with the County in the interlocal agreement and stay involved in the discussion to leverage HB 1406 funding in Sequim; commit Sequim's 0.0073% to the affordable housing pool with the County.
3. Do not adopt the Ordinance, participate with the County in the interlocal agreement and stay involved in the discussion to leverage HB 1406 funding in Sequim; the County is in control of all of the funding.
4. Adopt the Ordinance, do not participate with the County in the interlocal agreement; Sequim remains in control of its 0.0073%.

Staff recommends Option 1.

ATTACHMENTS

Attachments include the proposed Ordinance and a new SMC Chapter 3.34, an information sheet created by MRSC that provides a summary of HB 1406, Department of Commerce reporting requirements, a copy of the Council Agenda Item and R2019-07 adopted October 14, 2019 and a copy of the HB 1406.

1. [Ordinance and SMC Chapter 3.34](#)
2. [MRSC Information Sheet on HB 1406](#)
3. [Washington State Department of Commerce document – Encouraging Investments in Affordable and Supportive Housing – Update on Implementation](#)
(See reporting requirements on pages 9-10)
4. [R2019-07 Council Agenda Item](#)
5. [R2019-07, Intent to Impose Affordable Housing Tax Credit at Maximum Capacity](#)
6. [Substitute House Bill 1406 Chapter 338, Laws of 2019](#)

FINANCIAL IMPLICATIONS

The Municipal Research and Services Center (MRSC) estimates that the City could receive approximately \$30k per year by adopting a Resolution of intent to collect the

0.0073% (or \$600k over 20 years). The impact of COVID-19 on Sales Tax is unknown at this time but will most likely mean a reduced amount in the next few years.

RECOMMENDATION

Staff recommends that Council adopt Affordable Housing HB 1406 Ordinance Defining a New Chapter 3.34 Sales and Use Tax for Affordable Housing of the Sequim Municipal Code and recommends that the City coordinate regionally for use of the affordable housing funds with Sequim remaining the sole controller of the 0.0073% received by the City.

MOTION

I move to adopt the Affordable Housing HB 1406 Ordinance Adopting a New Chapter 3.34 Sales and Use Tax for Affordable Housing of the Sequim Municipal Code; and to recommend that the City coordinate regionally for use of the affordable housing funds with Sequim remaining the sole controller of the 0.0073% received by the City.